

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05
CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 IGA-02
CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00 PA-01
PRS-01 IO-13 ACDA-07 SAJ-01 EURE-00 /101 W
-----241831Z 025497 /41

P R 241705Z JAN 77

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC PRIORITY 3883

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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AMEMBASSY HELSINKI

AMEMBASSY STOCKHOLM

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E.O. 11652 N/A

TAGS: EGEN, PGOV, PINT, DA, US

SUBJECT: ECONOMIC ISSUES AND THE GOVERNMENT'S DECISION TO CALL
NEW ELECTIONS

REF: COPENHAGEN 0420

SUMMARY: THE CALL FOR NEW ELECTIONS (COPENHAGEN
0420) WAS PLAYED AGAINST A BACKDROP OF LARGELY
ECONOMIC ISSUES. IT WAS NOT THE ISSUES THEMSELVES,
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HOWEVER, THAT RESULTED IN POLITICAL STALEMATE. IT
WAS BASICALLY AN UNWILLINGNESS OF THE SOCIAL DEMOCRATS
AND LIBERALS TO COMPROMISE THE RELATIVELY SMALL
DIFFERENCES THAT APPARENTLY DIVIDED THEM, NOTABLY
IN THE AREA OF HOUSING. THE BIGGEST QUESTION RAISED
BY THE ELCTIONS IS WHETHER THE AUSTERITY PROGRAM
AGREED TO LAST AUGUST--PRINCIPALLY A TIGHT REIN ON WAGES--

CAN SURVIVE. IN ALL LIKELIHOOD IT WILL, WITH FAITH
IN THE KRONE AND DANISH CREDITWORTHINESS REMAINING
INTACT. END SUMMARY.

1. THE GOVERNMENT'S (SOCIAL DEMOCRATS) ANNOUNCEMENT OF
NEW ELECTIONS CAME AFTER IT FAILED TO PUT
TOGETHER ANOTHER IN A LONG STRING OF ECONOMIC COMPROMISES,
THE LATEST SERIES OF WHICH DATES BACK TO SEPTEMBER
1975.

2. THE FOUR ISSUES WHICH THE GOVERNMENT LUMPED TO-
GETHER IN ITS LATEST COMPROMISE ATTEMPT WERE (1)
A HOUSING COMPROMISE TO REPLACE THAT OF 1974; (2) NEW
TAXES; (3) A PROGRAM TO CREATE NEW JOBS AND REDUCE
UNEMPLOYMENT; AND (4) RENEWAL OF THE INTER-PARTY
DEFENSE AGREEMENT.

3. THE PRIME MINISTER ATTRIBUTED HIS ELECTION
DECISION TO THE LIBERALS' INTRANSIGENCE ON HOUSING,
A CHARGE WIDELY SECONDED BY OTHER PARTY SPOKESMEN
AND THE PRESS. THE HOUSING ISSUES ARE COMPLEX, BUT
THE NUB OF THE PROBLEM LIES IN THE DANISH SOCIAL
STRUCTURE. THE SOCIAL DEMOCRATS CONSIDER THAT THE
AUSTERITY PROGRAM IN EFFECT SINCE THE AUGUST 1976
COMPROMISE HITS THEIR MAJOR CONSTITUENCY, THE
WORKERS, THE HARDEST. THEY THEREFORE SEE INCREASED
TAXES ON THE MORE AFFLUENT HOMEOWNERS AS A WAY TO
RAISE REVENUE AND AT THE SAME TIME MAINTAIN A

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AMEMBASSY DUBLIN
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SOCIAL BALANCE. THE LIBERALS, ON THE OTHER HAND, PRESENT THEMSELVES AS THE HOMEOWNERS' CHAMPION AND REFUSE TO CHANGE ANY ASPECTS OF A 1974 HOUSING COMPROMISE, VALID THROUGH 1978 THAT WOULD ADD TO HOMEOWNERS' FISCAL BURDENS. (THE 1974 HOUSING COMPROMISE INTER ALIA ESTABLISHED A FOUR-YEAR PATTERN FOR RENT LEVELS AND TAX ASSESSMENT OF REAL PROPERTY.)

4. THE 1974 COMPROMISE, ADHERED TO BY THE LIBERALS, LIMITED OFFICIAL USE

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THE SOCIAL DEMOCRATS, AND FOUR OF THE SMALL CENTER PARTIES, HAD THE SIDE EFFECT OF GIVING THE LIBERALS A VETO OVER THE WHOLE GOVERNMENT PACKAGE AS LONG AS THE GOVERNMENT INSISTED ON KEEPING THE FOUR ISSUES TOGETHER. THIS CIRCUMSTANCES STEMS FROM THE FACT THAT COMPROMISES UNDER DANISH PARLIAMENTARY PRACTICES ARE SACROSANCT AND CANNOT BE ALTERED WITHOUT CONSENT OF ALL THE PARTIES CONCERNED. IN THIS INSTANCE, ALL THE 1974 COMPROMISE PARTIES WERE WILLING TO MAKE CHANGES EXCEPT THE LIBERALS. IN THE FACE OF THE LIBERALS' VETO, THE PRIME MINISTER OSTENSIBLY CHOSE NEITHER TO GIVE INTO THEM NOR TO SEPARATE HOUSING OUT AND WORK FOR COMPROMISE ON THE OTHER ISSUES. HE CHOSE INSTEAD TO GO TO THE POLLS. (IN FACT, IT MAY HAVE MADE A DECISION IN FAVOR OF ELECTIONS SEVERAL WEEKS AGO.)

5. HOW CLOSE THE CENTER PARTIES WERE TO AGREEMENT ON THE OTHER THREE ISSUES IS NOT KNOWN, BUT THEY APPARENTLY DID NOT HOLD ENTRENCHED POSITIONS. THE SOCIAL DEMOCRATS, WHO HAD ORIGINALLY PROPOSED A RAW ENERGY TAX, WERE, FOR EXAMPLE, WILLING TO CONSIDER ALTERNATIVES. THE PLAN TO CREATE NEW JOBS WAS STILL IN THE FORMATIVE STAGE. THE ISSUE OF THE DEFENSE AGREEMENT APPARENTLY PLAYED LITTLE OR NO PART IN THE BREAKDOWN OF THE ABORTIVE JANUARY 1977 COMPROMISE.

6. WHILE IT SEEMS CLEAR THAT POLITICAL ADVANTAGE, MUCH MORE THAN DIFFERENCES OF PRINCIPLE WERE AT STAKE, IT IS IMMATERIAL FROM THE ECONOMIC POINT OF VIEW WHO GETS THE BLAME FOR FORCING THE ELECTIONS. THE MAIN ECONOMIC QUESTION RAISED BY THE ELECTIONS IS WHAT EFFECT THEIR RESULTS WILL HAVE ON THE TROUBLED DANISH ECONOMY. WILL THE AUSTERITY INCOMES POLICY ADOPTED IN THE AUGUST 1976 COMPROMISE SURVIVE? DANISH DETERMINATION TO MEET THE ECONOMIC CHALLENGE, LIMITED OFFICIAL USE

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AS EVIDENCED IN THIS COMPROMISE, HAS BEEN A POSITIVE FACTOR IN KEEPING FAITH IN THE KRONE AND DANISH CREDITWORTHINESS ABROAD STRONG. IT IS A POLICY WHICH HOLDS PROMISE OF INCREASED EXPORTS AND MORE JOBS IN THE LONG RUN.

7. THE ODDS HEAVILY FAVOR THE SURVIVAL OF INCOMES POLICY. IN RECENT OPINION POLLS, THE PUBLIC HAS SHOWN ITSELF DECISIVELY IN FAVOR OF INCOME RESTRAINT. NO MATTER WHAT POLITICAL ALIGNMENT RESULTS FROM THE ELECTION, THE COOUNTRY'S ECONOMIC CIRCUMSTANCES ALLOW VERY LITTLE CHOICE OF POLICIES.

8. AS FOR DANISH-US ECONOMIC RELATIONS, THE ELCTIONS SHOULD BRING LITTLE OR NO CHANGE. DANISH APPROACHES TO SUCH MATTERS AS ENERGY AND INTERNATIONAL TRADE WILL NOT BE ALTERED.

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